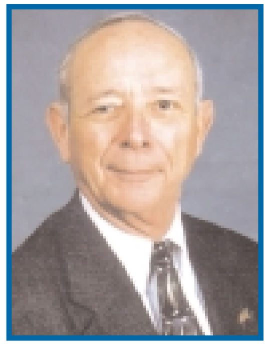


STATE SENATOR
GREG
SERVER
Indiana State Senate
200 West Washington Street
Indianapolis, Indiana 46204

2004 Post-Session Newsletter

Where Did the State Surplus Go?

$1.5 billion in tax cuts from 1998 to 2001	Increasing the Homestead Credit	$381 million
	Personal Property/Inventory Tax Cut	$323 million
	Welfare off of Local Property Tax Rolls	$68 million
	Property Tax Deduction - Residential	$111 million
	Dependent Child Exemption	$232 million
	Earned Income Tax Credit	$63 million
	Inheritance Tax Cut	$66 million
	Renter's Reduction	$22 million
	Repeal of Property Tax Add-back Requirement	$174 million
	Income Tax Cut for Seniors	$18 million
	Unemployment Tax Cut	$81 million
Additional Funding Returned to Hoosiers	Extra cash deposits into the retired teacher pension program	$300 million
	Additional funding for local roads and streets, divided among counties, cities and towns	$300 million
	Cost of living adjustment in the teachers retirement fund	$172 million

State Senator Greg Server

Serving District 50 — Vanderburgh and Warrick counties

2004 Session Wrap-Up

2004 Facts & Figures

The Second Regular Session of the 113th General Assembly began on Organization Day, November 18, 2003, and adjourned March 4, 2004.

This non-budget year is known as the “short” session.

Senate bills introduced: 503
Senate joint resolutions introduced: 10

Senate bills passed: 18
Senate joint resolutions passed: 0

House bills introduced: 459
House joint resolutions introduced: 7

House bills passed: 80
House joint resolutions passed: 0

Percentage of introduced bills that were sent to the governor: 10%

For more information about the General Assembly’s 2004 session, visit us online at:
www.in.gov/legislative

Visit my site at:
www.in.gov/S50

Dear Neighbors:

I’ve found during my service to the Indiana General Assembly that many citizens are not aware of how their tax money is spent. Most often, I’m asked questions such as “Where did the state surplus go?” or “How are the profits from the state lottery spent?”

Usually, in this spring newsletter, I would offer information on new laws from the recently concluded legislative session. Although the session was productive, it was a short session, which is not designed to produce the volume of initiatives often expected during a budget year when the session is twice as long. Therefore, due to policy changes in recent years and the increasing number of questions about taxes, I decided to dedicate this newsletter to answering some of your frequently-asked questions on the complicated area of state budget and tax policy.

The last several years have been unprecedented in the area of state finances. All 92 counties conducted a Supreme Court-ordered reassessment that required a market-based approach to assessing property. Additionally, Indiana is in the midst of a billion dollar deficit budget. In 2002, the state legislature restructured certain taxes and required counties to eliminate the inventory tax on property by 2007. In return, counties were allowed to incrase the County Economic Development Income Tax to provide additional Homestead Credits for homeowners. In this newsletter, I’ve provided an explanation of the history behind the property tax and why the state has limited powers over local property taxes (Page 1). Look for the explanations to the following questions inside:

- ***Gaming Profits: Where Does the Money Go?*** *(Page 2)*
- ***How Is the Gas Tax Used to Improve Roads in Indiana?*** *(Page 3)*
- ***Where Did the State Surplus Go?*** *(Back page)*

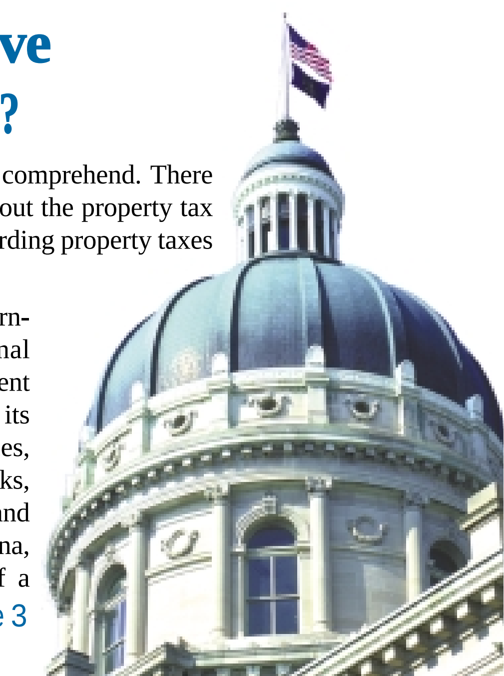
These complex issues sometimes are difficult for citizens to understand. Please contact me at (800) 382-9467 if you have questions.

Why Do We Have Property Taxes?

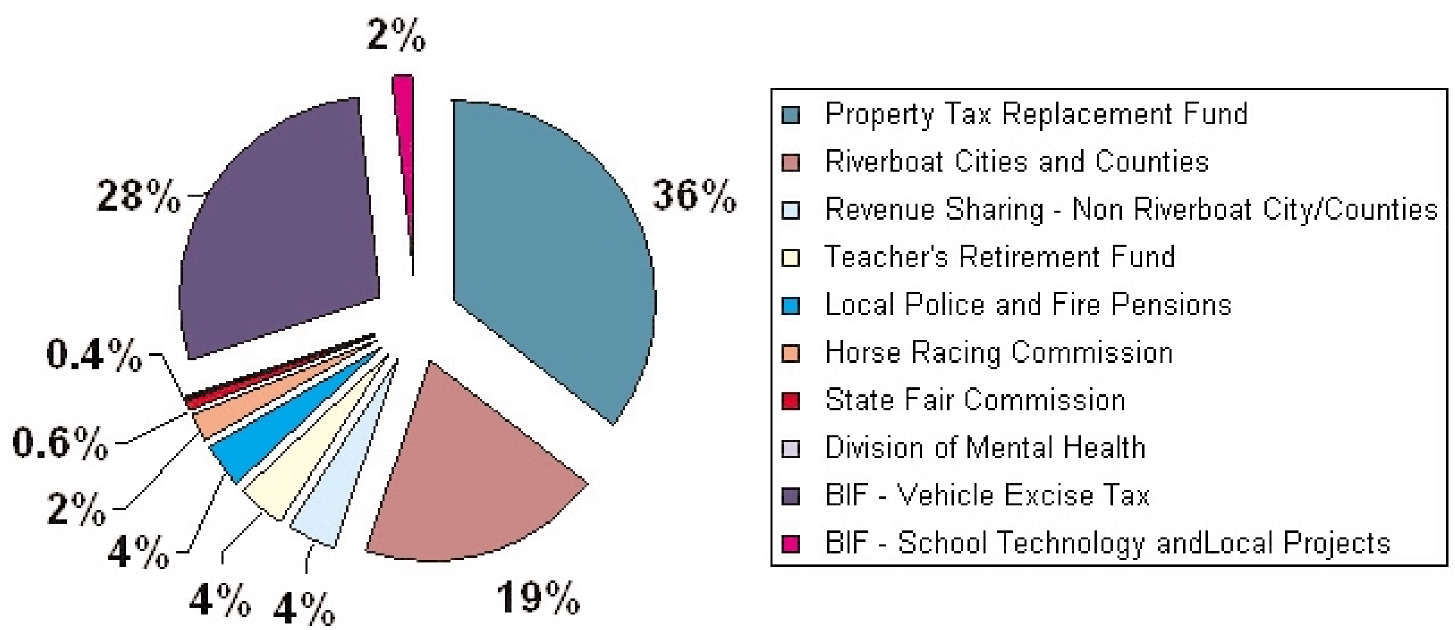
The property tax is the most difficult tax to comprehend. There has been a lot of talk in the media lately about the property tax situation in Indiana. Some of the issues regarding property taxes can be confusing.

Property taxes fund the majority of local government operations. According to the National Conference of State Legislatures, local government relies upon property taxes for almost 90 percent of its tax revenue. These taxes pay for a variety of services, including teachers' salaries, school buildings, parks, police and fire protection, libraries, poor relief and other municipal and school functions. In Indiana, state government receives less than one-tenth of a percent

see WHY, page 3



Gaming Profits: WHERE DOES THE MONEY GO?



"Where does the lottery money go?" is among the questions I am asked most often.

The lottery and gaming funds consist of profits from the Hoosier Lottery, riverboat casinos, bingo and pari-mutuel horse racing. The specifics for distributing the funds are set by state statute; however, the governor and his administration have some discretion in spending the money in the Build Indiana Fund (BIF).

In the last several years, due to the state's fiscal crisis, the administration has withheld BIF appropriations for local community development projects, and the money was used for general governmental operations.

From 1990 through 2002, all 92 Indiana counties received a portion of the funds. If not for the BIF, many needed local projects either would have not gotten done or raised property taxes to finance them. When the state's economy and revenues pick up again, it is possible local projects can be continued.

For the 2003 budget year, expenditures from the state's share of profits from the Hoosier Lottery, riverboat casinos and other forms of legalized gambling totaled more than $670 million. The state gaming profits subsidize local government budgets, which rely on vehicle and property taxes.

State gaming profits subsidize local government, which relies on vehicle and property taxes to fund their budgets and schools.

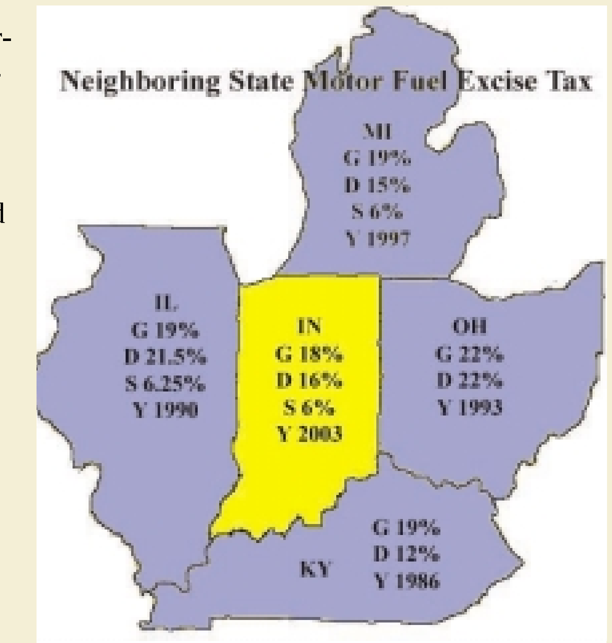
The largest recipients of gaming profits are Indiana homeowners. In fiscal year '03, $294 million was dedicated to the Property Tax Replacement Fund to help subsidize homeowners' local property tax bills through payment of homestead credits.

The second-largest share of the profits, $236 million, cuts the "license plate tax," the excise tax Indiana motorists pay annually when renewing their vehicle license plates. If you own a car or truck, your license plate tax is reduced by up to 50 percent yearly. To prevent the loss of revenue to schools and local governments, the state uses gaming profits to make up the otherwise lost revenue.

As the pie chart shows, local governments that have riverboat casinos share a portion of revenue, distributed on a per capita basis to non riverboat counties. Some of the gaming profits fund pension obligations for teachers, local police officers and firefighters. Funds also are set aside for computer enhancements in local schools and public libraries (the Indiana Technology Fund) and to support the development of high-tech research (21st Century Research & Technology Fund).

How Is the Gas Tax Used to Improve Roads in Indiana?

The recent surge in prices at the gas pumps and federal approval on the I-69 route have led to questions on transportation revenues in Indiana. The Indiana Department of Transportation (INDOT) receives revenue from four fuel taxes: gas, diesel and special fuels, motor carrier surtax, and motor carrier fuel use. INDOT also receives non-fuel tax revenues from licenses, registrations, titles and permits. After administrative expenses to several state departments, the remainder is shared between INDOT and counties, cities and towns for construction, control and maintenance of non-INDOT roads. Counties, cities and towns receive funding based on population, vehicle registration, and mileage.



Key: G=gasoline, D=diesel, S=sales, Y=year of last fuel tax adjustment

INDOT Fiscal Year 2004 Budget (estimated in millions)

Category	*Dollar Amount*	*% of total*
Operating	$255.6	19.8%
Program Support	$52.9	4.1%
Maintenance	$74	5.7%
Construction	$707.1	54.7%
Consulting	$75	5.8%
Right of Way	$56.7	4.4%
Road Leases	$71.2	5.5%
Total	**$1,292**	**100%**

Source: INDOT 2003 Annual Report

WHY CONTINUED FROM PAGE 1

of all property taxes collected.

Some citizens believe that the property tax is outdated, and unfair to those who have to pay it. Historically, property taxes have funded local governments in the United States since the mid-1800s. Back then, ownership of property was a better indicator of a person's wealth. More property meant more wealth. It was fair to tax a person's land because it was more representative of earnings.

Today, fairness is not so clear. Ownership of property is not always an indication of how much wealth a person has and certainly not indicative of the person's income and ability to pay taxes.

This most recent reassessment evaluated land based upon market value. The Supreme Court ruled that the previous method of reassessment was unfair to homeowners because homes with similar values were assessed differently.

Some citizens have recommended that the state fund local government completely with a system based more on a citizen's ability to pay, such as a higher income and sales tax. No tax is popular, and especially not the income tax, which has not been well-received by the public in the past when it was proposed. Increasing the sales tax can also be negative because it is a regressive tax, not based on one's ability to pay, and hurts lower income people the most. Even if the sales tax were doubled, it would not be enough to make up the billions needed in order to eliminate the property tax.

Currently, one-third of the state budget goes toward property tax relief saving property taxes payers over $3.6 billion a year.

One of the reasons that this move toward elimination of the property tax is difficult for local governments is that it is a stable form of revenue. In times of recession, such as the last several years when citizens' income levels were lower, sales and income tax collections decreased, and local governments have had trouble funding essential government programs and services.

Legislators have tried to help those with high local property tax bills. In the 2002 special session, the legislature raised the sales tax a penny and dedicated all of the money to property tax relief. Currently, one-third of the state budget goes toward property tax relief saving property taxes payers over $3.6 billion a year.

The goal is to be fair and do what's right for Hoosier homeowners, farmers and family businesses. There are no quick and easy solutions. The newly formed Property Tax Replacement Study Commission consisting of legislators, farmers, businessmen, and homeowners will study the elimination of property taxes over the summer and work toward solutions that reflect the concerns of all Indiana taxpayers.